



## Summary:

# South Carolina Electric & Gas Co.

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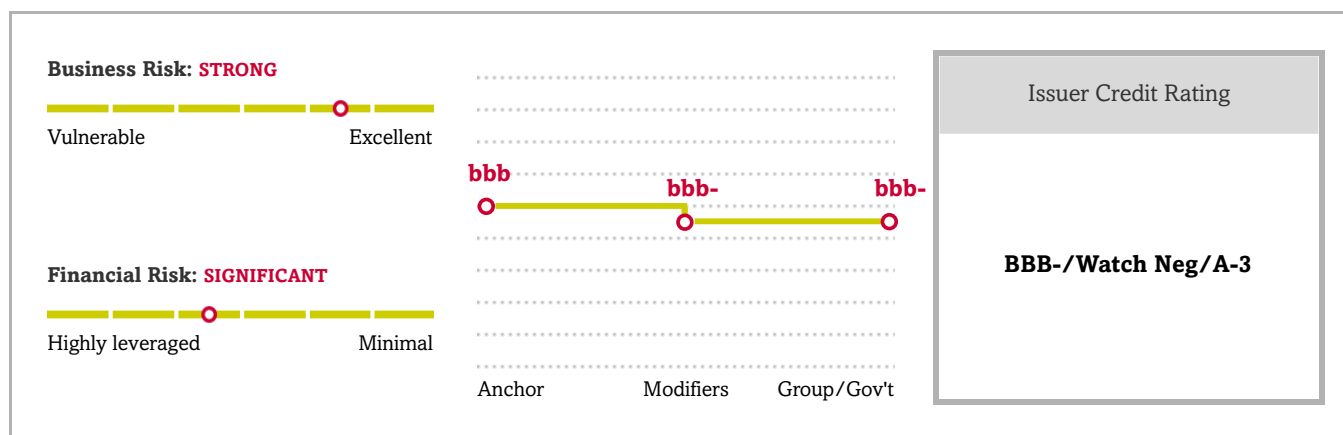
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## Summary:

## South Carolina Electric &amp; Gas Co.



## Rationale

Business Risk: Strong	Financial Risk: Significant
<ul style="list-style-type: none"> <li>Political and regulatory fallout from cancelled V.C. Summer nuclear construction project threatens further rate recovery of incurred costs;</li> <li>Moderately large customer base and robust local economy with slightly above-average growth in customer accounts; and</li> <li>Acquisition by Dominion Energy Inc. would stabilize or improve ratings.</li> </ul>	<ul style="list-style-type: none"> <li>Weakening financial measures after temporary rate cut related to the cancelled nuclear construction project;</li> <li>Stand-alone financial risk would be stressed by Dominion's plan to gain regulatory approval to acquire SCANA Corp.; and</li> <li>Liquidity is adequate to meet projected needs, but also depends on a reasonable solution to nuclear cost recovery.</li> </ul>

## CreditWatch

Our ratings on parent SCANA Corp. and its subsidiaries, including South Carolina Electric & Gas Co. (SCE&G) are on CreditWatch with negative implications. This reflects our view of ongoing uncertainty regarding cost recovery of the abandoned V.C. Summer nuclear construction project. We could lower ratings again if credit metrics weaken further beyond those in our base-case scenario, in which we assume the temporary rate cut is permanent. This could occur following the pending Summer abandonment proceeding if the PSC orders a permanent rate reduction or rate credits that lead to incrementally weaker financial measures than those resulting from the temporary 15% rate cut. Conversely, we could affirm ratings if the PSC does not require further rate credits or rate reductions beyond the 15% rate reduction already assumed in our base-case scenario.

## Our Base-Case Scenario

Assumptions	Key Metrics																
<ul style="list-style-type: none"><li>• Lower gross margins due base rate reduction;</li><li>• EBITDA margins in the 40%-45% range;</li><li>• Annual capital spending averaging about \$720 million;</li><li>• All debt maturities refinanced; and</li><li>• Negative discretionary cash flow.</li></ul>	<table><tr><th></th><th>2017A</th><th>2018E</th><th>2019E</th></tr><tr><td>Adjusted FFO to debt (%)</td><td>27.3</td><td>18-19</td><td>14-15</td></tr><tr><td>Adjusted debt to EBITDA (x)</td><td>3.9</td><td>4-5</td><td>4-5</td></tr><tr><td>Adjusted FFO interest coverage (x)</td><td>6.6</td><td>4-5</td><td>3-4</td></tr></table> <p>*A—Actual. E—Estimate. FFO—Funds from operations.</p>		2017A	2018E	2019E	Adjusted FFO to debt (%)	27.3	18-19	14-15	Adjusted debt to EBITDA (x)	3.9	4-5	4-5	Adjusted FFO interest coverage (x)	6.6	4-5	3-4
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## Company Description

SCE&G is a subsidiary of SCANA that operates as a vertically integrated electric utility and as a natural gas distribution utility in South Carolina.

## Business Risk: Strong

SCE&G has low-risk, fully regulated, vertically integrated, electric and natural gas distribution operations in South Carolina. Although SCE&G's service territory lacks geographic and operating diversity and demonstrates modest customer growth, the company benefits from a medium-sized customer base of 720,000 electric and 370,000 gas customers in central, southern, and southwestern South Carolina. Economic growth in the service area is robust, and the utility benefits from consistent customer additions. Our assessment of SCE&G's business risk profile incorporates a much less supportive regulatory environment in South Carolina than before the cancellation of the nuclear plants.

SCE&G's effectiveness in managing regulatory risk has eroded following a decision to cancel the construction of two new nuclear units. SCE&G recently implemented a 15% experimental (temporary) rate reduction of about \$31 million per month to comply with a recently passed South Carolina General Assembly law and a South Carolina Public Service Commission (PSC) order requiring the rate reduction. The reduction is related to financing costs that were being recovered in rates that were authorized under the Base Load Review Act, which the General Assembly recently repealed. The rate reduction is temporary until the PSC rules on SCE&G's permanent rate recovery of the abandoned project.

## Financial Risk: Significant

For SCE&G, we incorporate a base-case scenario that includes adjusted funds from operations (FFO) to debt of about 18% for 2018, in the middle of the benchmark range of the significant category. Afterward, however, we expect

adjusted FFO to debt to remain in the 14%-15% range. This weakening of credit measures reflects our base-case assumptions that the temporary 15% reduction and SCANA's announced cut to its dividend payments are permanent. We expect the supplemental ratio of FFO cash interest coverage to be about 4.5x at year-end 2018 and further decline to the 3.5x-4x range thereafter. These levels support the financial risk assessment of SCE&G. After reflecting the lower capital spending now that the Summer project has been cancelled and the utility's dividend reduction, discretionary cash flow is expected to be positive over the next few years. We expect debt leverage to grow as indicated by debt to EBITDA in the 4.5x-5x range over the next few years. We base our risk assessment on more relaxed benchmarks when compared with the typical corporate issuer, reflecting the company's steady cash flow and rate-regulated utility operations.

## Liquidity: Adequate

We assess SCE&G's stand-alone liquidity as adequate because the company's liquidity sources are likely to cover uses by more than 1.1x over the next 12 months, and the company could meet cash outflows even with a 10% decline in EBITDA. We think that SCE&G has the ability to absorb high-impact, low-probability events without refinancing, and that it has well-established and solid relationships with banks, a generally high standing in credit markets, and prudent risk management.

Principal Liquidity Sources	Principal Liquidity Uses
<ul style="list-style-type: none"> <li>• Available cash of about \$220 million;</li> <li>• Estimated cash FFO of about \$850 million; and</li> <li>• Estimated revolving credit facility availability of \$1.2 billion.</li> </ul>	<ul style="list-style-type: none"> <li>• Capital spending of roughly \$670 million; and</li> <li>• Debt maturities, including outstanding commercial paper, of about \$1.1 billion.</li> </ul>

## Other Credit Considerations

We apply a negative comparable ratings analysis modifier to reflect less credit supportive financial metrics after the 15% rate reduction.

## Group Influence

SCE&G is subject to our group rating methodology criteria. We assess SCE&G as a core subsidiary of parent SCANA because it is highly unlikely to be sold, is integral to the group's overall strategy, possesses significant management commitment, is a significant contributor to the group, and is closely linked to the parent's reputation. Moreover, there are no meaningful insulation measures in place that protect SCE&G from its parent. As a result, the issuer credit rating on SCE&G is 'BBB-', in line with the group credit profile of 'bbb-'.

## Ratings Score Snapshot

### Issuer Credit Rating

BBB-/Watch Neg/A-3

### Business risk: Strong

- **Country risk:** Very low
- **Industry risk:** Very low
- **Competitive position:** Satisfactory

### Financial risk: Significant

- **Cash flow/Leverage:** Significant

Anchor: bbb

### Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Fair (no impact)
- **Comparable rating analysis:** Negative (-1 notch)

### Stand-alone credit profile : bbb-

- **Group credit profile:** bbb-
- **Entity status within group:** Core (no impact)

## Issue Ratings

- We rate the preferred stock at SCE&G two notches below the issuer credit rating to reflect the discretionary nature of the dividend and the deeply subordinated claim if a bankruptcy occurs.
- The short-term rating of SCE&G is 'A-3' based on the issuer credit rating on the company.

## Issue Ratings--Recovery Analysis

Secured debt at SCE&G benefits from a first-priority lien on substantially all of the utility's real property, owned or subsequently acquired. Collateral provides coverage of more than 1.5x, supporting a recovery rating of '1+' and an issue rating two notches above the issuer credit rating.

## Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria - Corporates - Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Business And Financial Risk Matrix						
Business Risk Profile	Financial Risk Profile					
	Minimal	Modest	Intermediate	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
<b>Strong</b>	aa/aa-	a+/a	a-/bbb+	<b>bbb</b>	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

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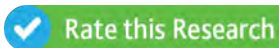
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## CREDIT OPINION

23 July 2018

## Update



## RATINGS

## South Carolina Electric &amp; Gas Company

Domicile	Columbia, South Carolina, United States
Long Term Rating	Baa3
Type	LT Issuer Rating
Outlook	Negative

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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## South Carolina Electric &amp; Gas Company

## Update following rating confirmation

## Summary

The negative outlook for South Carolina Electric & Gas Company (SCE&G) reflects the contentious political and regulatory environment in which the company is operating, and the uncertainty surrounding the Public Service Commission of South Carolina's (SCPSC) upcoming December 2018 determination of a permanent electric rate plan for the company following its decision to abandon construction of the V.C. Summer new nuclear units. SCE&G's credit profile reflects our expectation that the implementation of legislation ordering a temporary reduction of SCE&G's electric rates will cause the utility's ratio of cash flow from operations excluding working capital changes (CFO pre-WC) to debt to move to the low teens. Our view also recognizes that the decision of SCE&G's parent, SCANA Corporation (SCANA), to cut its dividend by 80% will conserve cash and support a ratio of CFO pre-WC less dividends to debt that we expect to be maintained at a similar level. Our opinion recognizes that the revenue reduction is temporary, however the magnitude is consistent with our belief that the political pressure on SCPSC could cause it to ultimately establish rates at unusually low levels. We also think it is unlikely the SCPSC would set permanent rates at levels that are lower than the temporary ones.

## Recent Developments

## New Legislation and Dividend Reduction

During the first week of July, two pieces of South Carolina legislation, H 4375 and S 954, became law. The legislation included: 1) a prospective repeal of the credit supportive Base Load Review Act (BLRA); 2) a requirement that the Public Service Commission of South Carolina (SCPSC) establish temporary rates for SCE&G that eliminate the increases the company received under the BLRA since 2011 (approximately 14.8% of its electric revenue); 3) definitions of the terms prudent and imprudent that are intended to make it more difficult for the SCPSC to determine SCE&G's decision to abandon nuclear construction was prudent; and 4) a requirement that the SCPSC delay a hearing in its open docket concerning SCE&G's rates and the potential merger with Dominion Energy, Inc. (Dominion, Baa2 negative) until November 1, 2018, with a decision no later than December 21, 2018. The SCPSC subsequently ordered the implementation of the temporary rates to begin in August. SCE&G has filed for an injunction, and a hearing date has been set at for the end of July.

In the meantime, to conserve cash and preserve its options, SCE&G's parent, SCANA (Ba1 negative) announced at the end of June that it would cut its dividend by 80%. The reduction corresponds to the portion of the dividend attributable to the electric operations of SCE&G. We view the action as supportive of credit quality.



### Potential Merger with Dominion

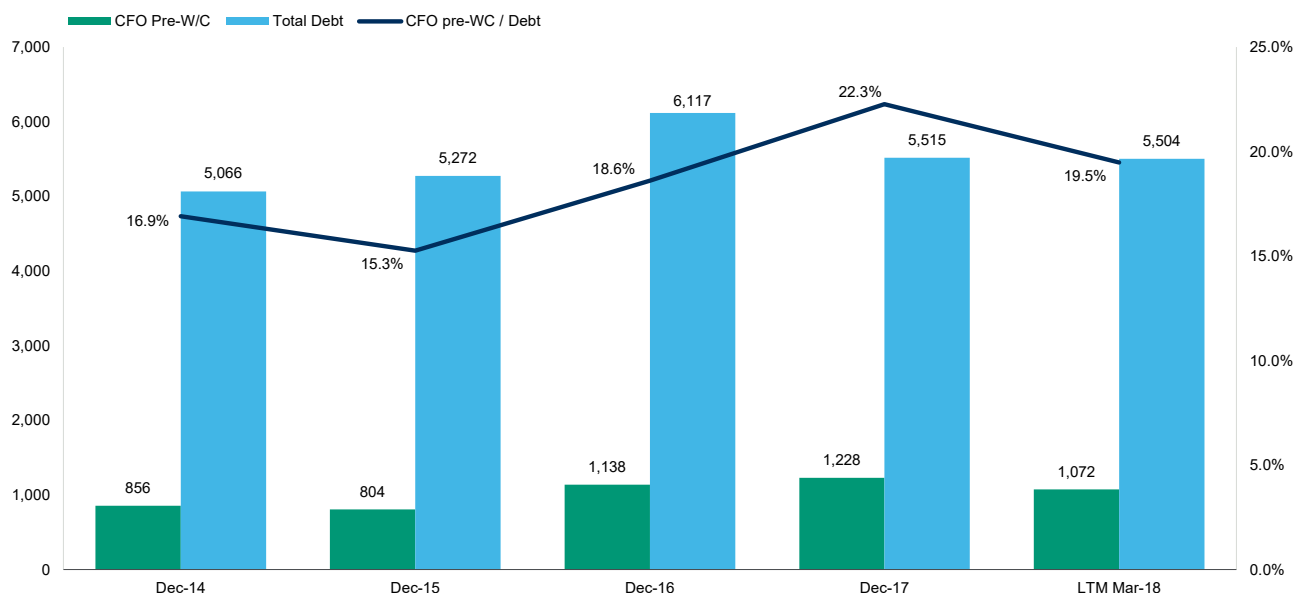
On January 3, 2018, SCE&G's parent company, SCANA, and Dominion announced plans for Dominion to acquire SCANA in an all-stock transaction that valued SCANA at about \$14.6 billion, including the assumption of about \$6.7 billion of debt. The proposed combination would provide specific benefits to SCE&G rate payers, including a \$1.3 billion cash payment within 90 days of closing, an estimated 5% reduction in rates (3.5% via credits for about eight years, plus a flow through of savings from federal tax reform legislation) and a 540 MW natural gas fired generating facility. The plan envisions a pre-tax write down of about \$1.7 billion relating to the nuclear investment, with the remaining \$3.3 billion to be amortized over 20 years. In addition to SCANA shareholder approval and other customary closing requirements, the merger is conditioned upon approval by the SCPSC of a joint petition filed by SCE&G and Dominion. The petition requests approval of terms for recovery of new nuclear development costs (including necessary prudence determinations). The deal is also conditioned on the absence of laws, or changes in laws (including the BLRA), that would result in a material change in terms or economic value of the proposed merger.

### SCE&G's Previously Proposed Solution to Nuclear Abandonment

Prior to SCANA's planned merger with Dominion, SCE&G in November 2017 proposed its own comprehensive solution to the nuclear abandonment issue. SCE&G's solution included an annual revenue reduction of \$90 million (about 3.5% of total electric revenue, or about 20% of the amounts being collected under the BLRA) for five years, and the addition of 640 MW of generating capacity. SCE&G's proposal included a pre-tax write down of \$810 million and an absorption by shareholders of the remaining \$2.9 billion (after application of the Toshiba guarantee) over 50 years at a reduced earnings rate. The plan was not well received, but it has been included as an alternate proposal for SCPSC consideration, and it is the primary driver of the \$1.118 billion (pre-tax) impairment SCE&G recorded in 2017.

Exhibit 1

#### Historical CFO Pre-W/C, Total Debt and CFO Pre-W/C to Debt<sup>[1][2]</sup>



[1] CFO Pre-W/C is defined as cash flow from operations excluding changes in working capital

[2] LTM Mar-2018 CFO Pre-WC has been reduced by approximately \$100 million of cash used for collateral posting, and does not include approximately \$115 million of proceeds from interest rate hedges being used to offset fuel costs. Absent these impacts, the ratio of CFO pre-WC to debt would be above 20%.

Source: Moody's Financial Metrics

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moodys.com](http://www.moodys.com) for the most updated credit rating action information and rating history.

### Credit strengths

- » Decision to abandon new nuclear project eliminates open ended construction and execution risk
- » Toshiba guarantee funds and tax deductions help to lower the cost of abandonment
- » Financial metrics are currently strong

### Credit challenges

- » Elevated political and regulatory risk is outweighing the benefits from eliminating construction risk
- » Temporary rate reduction will materially weaken financial metrics
- » Uncertainty surrounding permanent rates and potential merger with Dominion

### Rating outlook

The rating outlook is negative, reflecting the contentious and uncertain political and regulatory environment in which the company is operating. The ratings could move downward if there is a further deterioration of the legislative and regulatory compact, or if the impact on SCE&G's credit profile is more severe than we anticipate. For example if we expect the utility would not be able to maintain a ratio of CFO pre-WC to debt that is at least around 13%.

### Factors that could lead to an upgrade

- » The rating outlook is negative, as such, the ratings are not likely to move upward over the next 12-18 months
- » The outlook could be returned to stable if the open docket at the SCPSC results in a rate plan that will support stable and predictable cash flow metrics, including a ratio of CFO pre-WC to debt of at least 13%
- » Completion of the proposed merger with Dominion could also cause the outlook to be revised to stable

### Factors that could lead to a downgrade

- » If there were to be additional legislative efforts to dictate the SCPSC's actions or interfere with its ability to ultimately establish electric rates that are fair and reasonable
- » If SCE&G is ordered to refund amounts collected under the BLRA prior to April 1, 2018, particularly without the benefit of a larger, better capitalized partner
- » If rates established by the SCPSC do not permit SCE&G to maintain a ratio of CFO pre-WC to debt that is at least around 13%
- » If the company's liquidity becomes constrained due for example to an inability to draw on its credit lines, or issue additional debt, there could be downward movement in the ratings

### Key indicators

Exhibit 2

#### South Carolina Electric & Gas Company Indicators<sup>[1][2]</sup>

	Dec-14	Dec-15	Dec-16	Dec-17	LTM Mar-18
CFO pre-WC + Interest / Interest	4.5x	4.0x	4.9x	5.2x	4.6x
CFO pre-WC / Debt	16.9%	15.3%	18.6%	22.3%	19.5%
CFO pre-WC – Dividends / Debt	11.8%	9.9%	13.7%	16.5%	13.6%
Debt / Capitalization	44.0%	43.5%	45.4%	47.4%	47.0%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

[2] LTM Mar-2018 CFO Pre-WC has been reduced by approximately \$100 million of cash used for collateral posting, and does not include approximately \$115 million of proceeds from interest rate hedges being used to offset fuel costs.

Source: Moody's Financial Metrics

## Profile

South Carolina Electric & Gas Company (SCE&G, Baa3 negative), the largest operating company of SCANA Corporation (SCANA, Ba1 negative), is a vertically integrated electric and gas distribution utility operating within South Carolina, and regulated by the South Carolina Public Service Commission (SCPSC). South Carolina Fuel Company (SCFC, not rated) is a SCE&G subsidiary that buys nuclear and fossil fuel as well as emission credits for SCE&G.

SCE&G jointly owns Unit 1 of the nearly 1,000 MW operating V.C. Summer nuclear plant with the South Carolina Public Service Authority (Santee Cooper, A1 review for downgrade), a state owned utility. The companies also partnered on the construction of the now abandoned Units 2 and 3, with SCE&G having a 55% stake in the attempted 2,200 MW new nuclear development.

## Detailed credit considerations

### The decision to abandon nuclear construction resulted in extreme political and regulatory risk

SCE&G's July 2017 decision to cease construction of V.C. Summer Units 2 and 3, and to seek recovery of its nuclear development costs in accordance with the state's BLRA, evoked outrage and activism on the part of consumers, lawmakers and major intervenors throughout the state of South Carolina. As a result, what we historically viewed as one of the most credit supportive political and regulatory environments in the country, became one of the most challenged and uncertain.

The new nuclear units were being constructed in accordance with the state's credit supportive BLRA, which included an up-front determination of prudence of budgeted costs and annual adjustments to rates that provided a return on invested capital. The BLRA also clearly established the utility's right to recover its prudently incurred nuclear development costs in the event of abandonment. The abandonment decision, however, as well as the parameters for recovery, are subject to a determination of prudence by the SCPSC. In response to initial concerns raised by law makers last summer, the company withdrew its initial request for a determination of prudence and recovery (which by law would have been required to be decided in six months) to allow all interested parties time to understand the decision to abandon and to potentially agree upon a means to move forward.

In the months that followed, the political and regulatory risks to the project intensified dramatically. Committees were formed in both the SC House and Senate, with each proposing various pieces of legislation that essentially sought to undo the recovery provisions of the BLRA, and to potentially reconstitute the SCPSC. The law makers proposals were generally intended to stop SCE&G from collecting any revenue associated with the failed nuclear project, and to potentially refund past collections. The Office of Regulatory Staff (ORS), also requested the SCPSC order an immediate suspension of all rates SCE&G is collecting under the BLRA.

The legislative efforts were not stemmed by the more credit supportive proposals put forth first by SCE&G, and then by SCE&G and Dominion Energy, Inc. (Dominion) in conjunction with the proposed merger. Both the SCE&G and SCE&G/Dominion plans would reduce rates to customers and provide alternative generation at no additional cost. The Dominion proposal would also provide refunds; however both plans continue to rely on the credit positive recovery provisions provided in the BLRA.

In January 2018, SCE&G refiled with the SCPSC for a determination of prudence of its abandonment decision and the approval of rates to be established in conjunction with the potential merger with Dominion, or an alternative plan if the merger does not go through. The SCPSC combined this request with the request of the ORS for an immediate suspension of BLRA rates, which should allow for a normal rate proceeding with testimony and hearings to determine appropriate rate treatment for the nuclear investment. We viewed this development as credit positive.

The 2018 South Carolina legislative session concluded in May without a consensus among the House and Senate on conflicting bills seeking to reduce electric rates in the range of 13-18%. However, a conference committee was able to conform two pieces of legislation, H4375 and S954, that were passed during a special session of the General Assembly at the end of June. Among other things, the bills call for a temporary approximate 14.8% reduction in SCE&G's electric revenue. The H4375 also seeks to define the terms prudence and imprudence in ways that are intended to make it more difficult for the SPSC to determine SCE&G's decision to abandon nuclear construction was prudent. The bills became law in early July, with the General Assembly overriding the Governor's promised veto of the House bill (due to its inclusion of a rate reduction that was less than a full 18% rollback of BLRA rates). Passage of these laws are the most recent examples of an environment that is markedly different from the supportive treatment historically given the utility through the normal regulatory process, and previously under the BLRA.

Importantly, the new laws clearly acknowledge permanent rate making authority remains with the SCPSC, a credit positive. In addition, although the time for a decision has been extended from the normal statutory requirement of six months post filing, the law now requires a decision in the current proceeding by December 21, 2018; this should allow for a rational process and limits the time for additional uncertainty. However, we believe the politically charged environment that mandated the temporary rate cuts will weigh heavily on the SCPSC as it looks to implement permanent that are fair and reasonable.

#### **Tax deductions have been supporting credit metrics – but significant declines are expected**

SCE&G initially estimated its abandonment decision would provide an approximate \$1.5 billion (now likely closer to \$1.3 billion) of tax deductions on top of the amounts currently taken (about \$0.5 billion) for the research and experimentation deduction discussed below. This will continue to enhance cash flow over the next few years, providing some offset to likely rate declines.

In September 2016, SCE&G filed with the Internal Revenue Service for an allowed deduction for research and experimentation costs relating to its new nuclear development project. The utility received a tax refund in 2016, and was going to pay lower taxes in 2017 and 2018 even prior to the abandonment deduction. As a result of the abandonment, SCE&G is receiving additional near term tax refunds, and will not likely be required to pay taxes until about 2021.

Due in part to these tax benefits, the utility has been generating strong credit metrics, and absent a rate reduction, would be able to continue to generate CFO pre-WC to debt metrics in the high teens. A rate reduction along the lines of the newly legislated 14.8%, if upheld and made permanent, would move this metric to the low teens. In the current political environment, we think the SCPSC will be pressured to set rates as low as possible and may look to delay or deny recovery of abandonment costs. However, we believe it is unlikely revenues would be authorized at a level that is lower than those produced by the temporary rates.

The abandonment solution proposed by SCE&G in November would enable the company to maintain CFO pre-WC to debt metrics above 15%. Similarly, we estimate the proposed Dominion merger rate plan would enable the utility to generate CFO pre-WC to debt ratios in the mid-teens. Rate plans along the lines of these alternatives seem less likely in the current environment, but if implemented, could stabilize or even potentially put upward pressure on the ratings.

SCE&G's credit quality is also supported by SCANA's decision to cut its dividend by 80%, representing the portion associated with its electric operations. The reduction will conserve liquidity that could potentially be used for debt reduction, and is expected to allow the utility to maintain a ratio of CFO pre-WC less dividends to debt above 10%.

#### **Decision to abandon nuclear construction eliminated open ended construction and execution risk**

On July 31, 2017 SCE&G and its 45% state owned utility partner, the South Carolina Public Service Authority (Santee Cooper), announced their decision to end the construction of two new nuclear units at the V.C. Summer station. We initially viewed the decision as credit positive as the companies would no longer be subject to the construction and execution risk of building a disproportionately large and complex project without the benefit of a fixed price contract.

The decision to abandon followed months of detailed analysis to determine a realistic timeframe and cost for completing the project in the wake of the March 2017 bankruptcy filing of its contractor, Westinghouse Electric Company, LLC (Westinghouse, unrated). The partners concluded the plants would not be able to be completed before the then existing January 1, 2021 deadline for the receipt of production tax credits, and that the cost to complete was prohibitive. The analysis also considered changes in the utilities load forecasts and alternative lower cost options.

The announcement came on the heels of SCE&G's agreement with Westinghouse's parent, Toshiba Corporation, regarding the amount and terms under which it would make payments due under its construction guarantee. Under the agreement, the V.C. Summer partners were promised approximately \$2.2 billion from Toshiba (about \$1.2 billion for SCE&G's 55% share) over a maximum of five years, with the potential for earlier payments in conjunction with the planned liquidation of Westinghouse. The agreement clarified the amounts owed to the project partners, and provided certainty with respect to Toshiba's obligation to pay. In September 2017, SCE&G removed all remaining risk of payment by monetizing the value of the future payments via a sale to Citibank, N.A for about 92% of its value.

The financial impact of the abandonment was offset to some degree by the Toshiba guarantee funds and SCE&G's ability to take a tax deduction for the full basis of its nuclear investment. Assuming the Toshiba guarantee is applied toward reducing rate base, SCE&G originally estimated the combination of the guarantee and tax deductions could essentially reduce the net amount of abandoned rate

base to be recovered to about \$2.2 billion (this net amount will now be somewhat higher as a result of federal tax reform and the resulting lower corporate tax rate). Through December 2017, SCE&G has taken impairment charges of \$490 million, representing \$1.5 billion of capital costs not in rates reduced by \$1.01 billion of proceeds from the Toshiba guarantee (around \$302 million after tax), against this investment. The company has also taken an additional \$628 million (about \$388 million after tax) of impairments relating to previously deducted expenses and planned generation purchases. These write-downs are consistent with the rate solution SCE&G proposed in November 2017. In January 2018, the company requested the SCPSC authorize this plan as an alternative in the event the proposed merger with Dominion does not go forward.

### Liquidity analysis

Due to the large spend for its nuclear program, SCE&G's liquidity has historically been below average. For the twelve months ended March 31, 2018, SCE&G generated approximately \$746 million of cash from operations (CFO), invested about \$805 million in capital expenditures and up streamed \$322 million in dividend payments, resulting in negative free cash flow (FCF) of about \$380 million. For FY 2017, SCE&G generated approximately \$1.0 billion of CFO, invested approximately \$928 million in capital expenditures and up streamed \$319 million in dividend payments to parent SCANA, resulting in negative FCF of approximately \$240 million. Shortfalls have been funded via a combination of long and short term debt proceeds along with equity contributions from SCANA. Going forward, we expect capital expenditures to be reduced to about \$500 million per year, and that dividends will be significantly lower. As a result, we anticipate the utility will become free cash flow positive.

As of March 31, 2018, the utility had \$1.4 billion of borrowing capacity under its consolidated lines of credit including \$500 million at South Carolina Fuel Company (guaranteed by SCE&G) that can only be utilized for fuel, and \$900 million at SCE&G. As of March 31, 2018, on a consolidated basis SCE&G and South Carolina Fuel Company had about \$146 million of commercial paper outstanding and a \$100 million drawn on its revolving credit facility for collateral posting with a natural gas supplier.

The credit facility has a single financial covenant requiring that SCE&G maintain a consolidated debt to capitalization ratio of no more than 70%. As of March 31, 2018, SCE&G was in compliance with its financial covenant and we estimate the debt to capitalization ratio to be about 53%. The facility also requires a representation that there has not been a material adverse change (MAC) for new borrowings. During the first quarter of 2018, SCE&G was able to draw on its credit facility for collateral posting which would have required representing to its banks that its nuclear project abandonment is not a material adverse change. The MAC requirement is negative for credit as it may preclude borrowing under the facility when it is needed most. SCE&G's next long term debt maturity is \$550 million of first mortgage bonds due in November of 2018.

## Rating methodology and scorecard factors

The scores for Factor 1 and Factor 2 have each been revised downward to reflect a more uncertain, less credit supportive, political and regulatory environment.

Exhibit 3

Rating Factors				
South Carolina Electric & Gas Company				
Regulated Electric and Gas Utilities Industry Grid [1][2]			Current LTM 3/31/2018	
			Moody's 12-18 Month Forward View As of Date Published [3]	
Factor 1 : Regulatory Framework (25%)			Measure	Score
a) Legislative and Judicial Underpinnings of the Regulatory Framework			Baa	Baa
b) Consistency and Predictability of Regulation			Ba	Ba
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs			Baa	Baa
b) Sufficiency of Rates and Returns			Ba	Ba
Factor 3 : Diversification (10%)				
a) Market Position			Baa	Baa
b) Generation and Fuel Diversity			Ba	Ba
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)			4.6x	A
b) CFO pre-WC / Debt (3 Year Avg)			18.0%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)			12.7%	Baa
d) Debt / Capitalization (3 Year Avg)			45.7%	Baa
Rating:				
Grid-Indicated Rating Before Notching Adjustment			Baa3	Baa3
HoldCo Structural Subordination Notching			0	0
a) Indicated Rating from Grid			Baa3	Baa3
b) Actual Rating Assigned			Baa3	Baa3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

[2] As of 3/31/2018

[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

Source: Moody's Financial Metrics

## Appendix

Exhibit 4

### Peer comparison table

(in US millions)	South Carolina Electric & Gas Company			Duke Energy Carolinas, LLC			Georgia Power Company			Mississippi Power Company		
	Baa3 Negative			A1 Stable			A3 Negative			Ba1 Positive		
	FYE Dec-16	FYE Dec-17	LTM Mar-18	FYE Dec-16	FYE Dec-17	LTM Mar-18	FYE Dec-16	FYE Dec-17	LTM Mar-18	FYE Dec-16	FYE Dec-17	LTM Mar-18
Revenue	2,986	3,070	3,053	7,322	7,302	7,349	8,383	8,310	8,439	1,163	1,187	1,217
CFO Pre-W/C	1,425	1,442	1,459	3,630	3,703	3,719	3,544	3,723	3,762	74	-2,889	-2,857
Total Debt	6,117	5,515	5,504	9,862	10,463	10,995	11,500	12,334	11,808	3,142	2,163	2,153
CFO pre-WC / Debt	18.6%	22.3%	19.5%	26.6%	24.6%	23.4%	21.1%	20.0%	21.5%	7.1%	-5.2%	4.1%
CFO pre-WC - Dividends / Debt	13.7%	16.5%	13.6%	6.4%	18.6%	17.0%	9.8%	9.6%	10.5%	7.1%	-5.1%	4.1%
Debt / Capitalization	45.4%	47.4%	47.0%	36.4%	41.6%	42.6%	39.7%	45.0%	41.7%	46.2%	61.6%	61.6%

[1] All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End. LTM = Last Twelve Months. RUR\* = Ratings under Review, where UPG = for upgrade and DNG = for downgrade.

Source: Moody's Financial Metrics

Exhibit 5

### Cash flow and credit metrics

CF Metrics	Dec-14	Dec-15	Dec-16	Dec-17	LTM Mar-18
As Adjusted					
<b>FFO</b>	<b>972</b>	<b>787</b>	<b>1,048</b>	<b>492</b>	<b>553</b>
+/- Other	(116)	17	90	736	519
<b>CFO Pre-WC</b>	<b>856</b>	<b>804</b>	<b>1,138</b>	<b>1,228</b>	<b>1,072</b>
+/- ΔWC	(219)	270	(225)	(214)	(318)
<b>CFO</b>	<b>637</b>	<b>1,074</b>	<b>913</b>	<b>1,014</b>	<b>754</b>
- Div	260	285	301	319	322
- Capex	930	1,004	1,390	936	813
<b>FCF</b>	<b>(553)</b>	<b>(215)</b>	<b>(778)</b>	<b>(241)</b>	<b>(381)</b>
(CFO Pre-W/C) / Debt	16.9%	15.3%	18.6%	22.3%	19.5%
(CFO Pre-W/C - Dividends) / Debt	11.8%	9.9%	13.7%	16.5%	13.6%
FFO / Debt	19.2%	14.9%	17.1%	8.9%	10.0%
RCF / Debt	14.1%	9.5%	12.2%	3.1%	4.2%

All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are Financial Year-End unless indicated.

Source: Moody's Financial Metrics

## Ratings

Exhibit 6

Category	Moody's Rating
<b>SOUTH CAROLINA ELECTRIC &amp; GAS COMPANY</b>	
Outlook	Negative
Issuer Rating	Baa3
Senior Secured Shelf	(P)Baa1
Sr Unsec Bank Credit Facility	Baa3
Commercial Paper	P-3
<b>PARENT: SCANA CORPORATION</b>	
Outlook	Negative
Issuer Rating	Ba1
Sr Unsec Bank Credit Facility	Ba1
Senior Unsecured	Ba1
Commercial Paper	NP
<b>SOUTH CAROLINA FUEL COMPANY INC.</b>	
Bkd Sr Unsec Bank Credit Facility	Baa3
Bkd Commercial Paper	P-3

Source: Moody's Investors Service



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REPORT NUMBER

1133013

Moody's Rating Methodology and Scorecard Factors\*

	Weighting	<u>SCE&amp;G Score</u>	
Factor 1: Regulatory Framework	25%		
a. Legislative and Judicial Underpinnings of the Regulatory Framework		Baa	
b. Consistency and Predictability of Regulation		Ba	
Factor 2: Ability to Recover Costs and Earn Returns	25%		
a. Timeliness of Recovery of Operating and Capital Costs		Baa	
b. Sufficiency of Rates and Returns		Ba	
Factor 3: Diversification	10%		
a. Market Position		Baa	
b. Generation and Fuel Diversity		Ba	
		LTM	Moody's
		3/31/18	Forecast Case
Factor 4: Financial Strength	40%		
a. CFO pre-WC/ Interest		A	Baa
b. CFO pre-WC/Debt		Baa	Baa
c. (CFO pre-WC less Dividends) / Debt		Baa	Baa
d. Debt % of Total Capital		Baa	Ba

\* Source: Moody's Credit Opinion, South Carolina Electric & Gas, July 23, 2018

LTM - Latest twelve months

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[ Press Release ] Fitch Downgrades SCANA to 'BB'/SCE&G to 'BB+'; Maintains Rating Watch Evolving



## Fitch Downgrades SCANA to 'BB'/SCE&G to 'BB+'; Maintains Rating Watch Evolving

Fitch Ratings-New York-08 August 2018: Fitch Ratings has downgraded the long-term Issuer Default Ratings (IDRs) of South Carolina Electric and Gas Co (SCE&G) and its parent SCANA Corp. (SCANA) by one notch to 'BB+' and 'BB', respectively. Fitch also downgraded the ratings of Public Service Company of North Carolina (PSNC) by one notch, to 'BB+', given the rating linkage with its parent, SCANA. Concurrently, the short-term IDRs of SCE&G and PSNC were downgraded to 'B' from 'F3' while the short-term IDR of SCANA was maintained at 'B'. The downgrades follow the absence of injunctive relief blocking the recently enacted 14.8% electric rate cut. While the company is likely to appeal the Aug. 6, 2018 order from the U.S. District Court, the rate cut will be implemented with SCE&G's August billing cycle which began on Aug. 7, 2018. As such, SCE&G will collect 14.8% less electric revenue on an ongoing basis until the South Carolina Public Service Commission (PSC) issues an order in a multi-docketed proceeding, which is expected by Dec. 21, 2018. Additionally, SCE&G will credit customers on the August bills for the rate cut retroactive to April 1, 2018. The rate cut was ordered by the PSC to comply with Act 258, which resulted from the passage of HB4375. As per the legislation, the new rate is considered an "experimental rate" until the PSC issues a final order.

If allowed to stand, Fitch considers the magnitude of the cut to be detrimental to SCE&G's and SCG's credit metrics, even after consideration of SCG's 80% reduction of the common dividend. Despite the legislature's characterization of the new rate as "temporary," Fitch is concerned that the expected December order could be of the same magnitude. If the PSC issues an order in December 2018 with a permanent cut of a similar magnitude, additional downgrades may be warranted. If the 14.8% rate cut were to be permanent, Fitch expects SCG's Total Adjusted Debt/EBITDAR to average around 6x over the next three years and SCE&G's to average around 5.7x, both above Fitch's previously stated downgrade thresholds of 5.5x and 5.0x, respectively.

Fitch also notes important changes to South Carolina utility regulation contained in HB4375 that could result in the continuation of SCG's adversarial regulatory relationship. Fitch acknowledges the existence of additional state and federal investigations into various aspects of the terminated nuclear project, but believes that at this time none have reached a level to have rating implications.

Fitch's Rating Watch Evolving also considers the potential positive implications of the proposed merger between SCG and Dominion Energy (DEI, BBB+/Stable). If the merger were to be consummated as originally envisioned, Fitch expects a stabilization of SCG's and SCE&G's credit metrics, albeit at a lower level, if the 14.8% rate cut is upheld. Given the animosity exhibited by the interventionist state legislature, it is not clear if there will be support of DEI's proposed regulatory solution. An order is expected in DEI's proposal by Dec. 21, 2018 as part of the aforementioned multi-docketed proceeding. SCG shareholders approved the merger on the DEI merger on July 31, 2018.

### KEY RATING DRIVERS

**Adverse Regulatory Environment:** The ratings reflect the sharp deterioration in the legislative and regulatory environment in South Carolina since abandonment of the new nuclear project in July 2016. In addition to HB4375's legislatively mandated 14.8% rate cut, changes to definitions and statutory components of the state's utility regulation are likely to result in diminished regulatory support, in Fitch's opinion. Among such items are an expansive definition of prudence, removal of the mandate that the Office of Regulatory Staff (ORS) must consider preservation of a utility's financial integrity, and granting the ORS subpoena powers. A second bill (SB954) passed by the Legislature orders the PSC to deviate from the statutory six-month limit on rate proceedings and prohibits an order in the multi-docketed proceeding before Nov. 1, 2018. SCG has filed a lawsuit in federal court alleging that HB4375 and SB954 constitute an unlawful taking of private property and violate due process, among other issues. The company failed to garner injunctive relief to stay the immediate implementation of the two laws and the

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accompanying rate cut.

**Financial Policy and Capital Structure:** Management's financial policy, including targeted leverage and allocation of capital, will be key rating drivers going forward. The company recently cut its dividend by 80%, preserving approximately \$275 million in cash annually. Nonetheless, if the recently ordered 14.8% rate reduction were to be made permanent, there would be a significant effect on SCG and SCE&G's credit metrics. Fitch expects SCG's total adjusted debt/EBITDAR to average around 6.0x over the next three years and SCE&G's to average around 5.7x, both above Fitch's previously stated downgrade thresholds of 5.5x and 5.0x, respectively.

**Acquisition by DEI:** The acquisition by DEI, as currently proposed, would enhance SCG's credit quality as it would bring SCG into the fold of a larger and better capitalized entity. If the merger were to be consummated as originally envisioned, Fitch expects a stabilization of SCG's and SCE&G's credit metrics and would consider an upgrade. An order is expected in DEI's proposal by Dec. 21, 2018 as part of the aforementioned multi-docketed proceeding. SCG shareholders approved the merger with the DEI on July 31, 2018.

**Parent/Subsidiary Rating Linkage:** Fitch focuses on operational ties between SCG, SCE&G and PSNC in assessing the rating linkage between them, in accordance with its criteria for subsidiaries with stronger credit profiles than their parents. Fitch assesses the operational ties as strong given the shared management and centralized treasury operations. In addition, SCE&G generates the majority of SCG's earnings while PSNC relies on equity infusions from SCG to implement its expansion program. As a result, Fitch currently rates SCE&G and PSNC one-notch above SCG.

#### DERIVATION SUMMARY

SCG, as a stand-alone entity with the current nuclear recovery uncertainty, is weakly positioned compared with IPALCO Enterprises, Inc.'s (BB+/Positive), given the more constructive and predictable regulatory environment of IPALCO's subsidiary, Indianapolis Power and Light Company (BBB-/Positive). IPALCO's greater earnings and cash flow visibility more than offset its higher proportion of parent-level debt. Historically, SCG has had a slightly more favorable business profile as compared to DPL, Inc. (BB/Positive) given SCG's predominant regulated operations. However, DPL is in the process of divesting the generation assets owned by AES Ohio Generation LLC, a non-regulated subsidiary. Additionally, Ohio's regulatory construct, while still in transition, is more constructive than what is playing out in South Carolina. In addition, Ohio regulators continue to demonstrate a willingness to take actions to protect the financial integrity of its utilities.

SCE&G is a vertically integrated regulated utility company operating exclusively in South Carolina. SCE&G's credit profile is constrained by the heightened regulatory and legislative risk related to the abandonment of its nuclear expansion project. SCE&G has a smaller scale and balance sheet than Georgia Power Company (A-/Negative), which undertook similar new nuclear construction risk. SCE&G and Dayton Power & Light Company (DP&L) (BBB-/Positive) both operate regulated assets with evolving regulatory constructs.

#### KEY ASSUMPTIONS

##### SCG and SCE&G

- 14.8% rate reduction through the forecast period attributable to costs currently being collected for VC Summer Nuclear;
- Additional new nuclear development (NND) impairment of \$1.67 billion;
- Columbia Energy Center recovered through rates in 2021;
- Reduction of the \$2.45 annual dividend by 80% (\$344 million to \$70 million).

##### PSNC

- Volume growth around 2.0% in the intermediate term;
- Approximately \$700 million of capex through 2020;
- Equity advances to maintain 40/60 debt/equity capital structure.

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[ Press Release ] Fitch Downgrades SCANA to 'BB'/SCE&G to 'BB+'; Maintains Rating Watch Evolving

## RATING SENSITIVITIES

### SCG

Developments that May, Individually or Collectively, Lead to Positive Rating Action

The ratings could be upgraded if the merger into DEI closes as proposed and the issues surrounding the abandoned nuclear plants are resolved in a credit supportive manner. Ratings could be upgraded if recovery mechanisms for the stranded nuclear assets and management's financial policy result in SCG's adjusted debt/EBITDAR stabilizing at/or below 4.5x.

Developments that May, Individually or Collectively, Lead to Negative Rating Action

- The merger with DEI fails to close;
- Availability under committed liquidity facilities and anticipated internally generated cash flows falling short of expected obligations due in the next 12 months-18 months;
- Unfavorable terms for the recovery of stranded costs and/or material unrecoverable costs;
- Adjusted debt/EBITDAR consistently and materially exceeding 5.5x;
- Ring-fencing provisions that restrict cash inflows from SCE&G to SCG.

### SCE&G

Developments that May, Individually or Collectively, Lead to Positive Rating Action

The ratings could be upgraded if the merger into DEI and resolution of new nuclear issues result in SCE&G's adjusted debt/EBITDAR stabilizing around 3.5x-4.0x.

Developments that May, Individually or Collectively, Lead to Negative Rating Action

Future developments that may, individually or collectively, lead to a negative rating action include:

- The merger with DEI fails to close;
- Availability under committed liquidity facilities and anticipated internally generated cash flows falling short of expected obligations due in the next 12 months-18 months.
- Unfavorable terms for the recovery of stranded costs, and/or material unrecoverable costs;
- Continued deterioration in the regulatory and legislative environment in South Carolina;
- Adjusted debt/EBITDAR consistently and materially exceeding 5.0x.

### PSNC

Developments that May, Individually or Collectively, Lead to Positive Rating Action

Positive rating action is predicated upon a rating upgrade of SCG given PSNC's rating linkage with its parent. Fitch could widen the rating differential between the IDRs of PSNC and SCG if strong ring-fencing provisions were enacted.

Developments that May, Individually or Collectively, Lead to Negative Rating Action

--Given the strength of the credit metrics for the current ratings, a downgrade of parent SCG below the current 'BB+' represents the greatest likelihood of a PSNC downgrade. While less likely given the headroom, a downgrade could also occur if adjusted debt/EBITDAR exceeds 5.5x on a sustained basis.

## LIQUIDITY

As of June 30, 2018, SCG had about \$337.6 million available under its \$400 million five-year credit agreement (expiring in December 2020) while SCE&G (inclusive of South Carolina Fuel Co.'s facilities) had \$842.2 million available under \$1.4 billion of consolidated committed credit agreements (\$1.2 billion maturing in December 2020 and \$200 million maturing in December 2018). PSNC had about \$169.1 million available under its \$200 million credit agreement. Additionally, SCG held \$238 million cash and cash equivalents as of June 30, 2018, of which \$222 million was at SCE&G. As of June 30, 2018, outstanding CP balances are as follows: SCG--\$29 million, SCE&G--\$457.5 million, and PSNC--\$30.9 million. SCE&G has two first mortgage bond maturities in November 2018 totalling \$550 million. Not giving effect to potential refinancing or retirement of the November maturities as of Dec. 31, 2017, the company has the ability to issue approximately \$1 billion in additional mortgage debt. If SCE&G is not able to refinance the bonds in the corporate market, Fitch expects the company to be able to access its credit

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[ Press Release ] Fitch Downgrades SCANA to 'BB'/SCE&G to 'BB+'; Maintains Rating Watch Evolving

lines.

#### FULL LIST OF RATING ACTIONS

Fitch has downgraded the following ratings and maintained the Rating Watch Evolving:

SCANA Corporation

--Long-term IDR to 'BB' from 'BB+';

--Senior unsecured debt to 'BB'/RR4' from 'BB+';

South Carolina Electric & Gas Co.

--Long-term IDR to 'BB+' from 'BBB-';

--First mortgage bonds to 'BBB'/RR1' from 'BBB+';

--Senior unsecured debt to 'BBB-'/RR2' from 'BBB+';

--Short-term IDR to 'B' from 'F3';

--Commercial paper to 'B' from 'F3'.

Public Service Company of North Carolina, Inc.

--Long-term IDR to 'BB+' from 'BBB-';

--Senior unsecured debt to 'BBB-'/RR2' from 'BBB+';

--Short-term IDR to 'B' from 'F3';

--Commercial paper to 'B' from 'F3'.

South Carolina Fuel Company

--Commercial paper to 'B' from 'F3'.

Fitch has maintained the following ratings on Rating Watch Evolving:

SCANA Corporation

--Short-term IDR of 'B';

--Commercial paper of 'B'.

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Summary of Financial Statement Adjustments - No financial statement adjustments were made that were material to the rating rationale outlined above.

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Applicable Criteria

Corporate Rating Criteria (pub. 23 Mar 2018) (<https://www.fitchratings.com/site/re/10023785>)

Corporates Notching and Recovery Ratings Criteria (pub. 23 Mar 2018)

(<https://www.fitchratings.com/site/re/10024585>)

Parent and Subsidiary Rating Linkage (pub. 16 Jul 2018) (<https://www.fitchratings.com/site/re/10036366>)

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#### UNSOLICITED ISSUERS

Entity/Security	ISIN/CUSIP/COUPON RATE	Rating Type	Solicitation Status
South Carolina Fuel Company USCP 4(2)/ 144A D	-	Short Term Rating	Unsolicited

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## South Carolina Electric & Gas Co.

Subsidiary of SCANA Corporation

Rating Type	Rating	Outlook	Last Rating Action
Long-Term IDR	BBB-	Rating Watch Evolving	Rating Watch Maintained 03 July 2018
Short-Term IDR	F3		Rating Watch Maintained 03 July 2018
Senior Secured	BBB+		Rating Watch Maintained 03 July 2018
Senior Unsecured	BBB		Rating Watch Maintained 03 July 2018
CP	F3		Rating Watch Maintained 03 July 2018
<a href="#">Click here for full list of ratings</a>			

## Financial Summary

(USDm)	Dec 2014	Dec 2015	Dec 2016	Dec 2017
Gross Revenue	3,091	2,930	2,986	3,070
FFO Fixed-Charge Coverage (x)	4.9	4.5	5.0	4.4
FFO-Adjusted Leverage (x)	4.7	4.9	4.6	4.0
Operating EBITDAR	1,205	1,286	1,392	1,406
Cash Flow from Operations	641	1,078	922	1,006
Capital Intensity (Capex/Revenue) (%)	30.2	34.4	46.9	30.2
Total Adjusted Debt/Operating EBITDAR (x)	4.2	4.1	4.4	3.9
Total Adjusted Debt with Equity Credit	5,038	5,285	6,101	5,540
Source: Fitch Solutions.				

Fitch Ratings maintained the Issuer Default Rating (IDR) of South Carolina Electric and Gas Co. (SCE&G) on Rating Watch Evolving on July 3, 2018, following South Carolina Legislature's enactment of HB 4375. Among other provisions, the highly debated legislation orders the South Carolina Public Service Commission (PSC) to cut SCE&G's electric rates by 14.8% retroactive to April 1, 2018. The legislative action was taken in response to SCE&G's decision on July 31, 2017 to halt construction of two new units at V.C. Summer Nuclear Station (Summer). Under HB 4375, the rate cut is considered an "experimental rate" until the PSC issues an order in a multi-docketed proceeding by Dec. 21, 2018. If allowed to stand, Fitch considers the magnitude of the cut to be detrimental to SCE&G's credit metrics, even after consideration of parent company, SCANA Corporation's (SCG), 80% reduction of the common dividend.

Fitch is concerned that the expected December order could be of the same magnitude, despite the Legislature's characterization of the new rate as "temporary." If so, we expect SCE&G's total adjusted debt/EBITDAR to average around 5.7x over the next three years, above Fitch's previously stated downgrade threshold of 5.0x. SCE&G has filed a federal court challenge to the legislation and requested an injunction to stay. Absent prompt favorable legal intervention, Fitch is likely to downgrade the ratings of SCE&G by one notch. If the PSC issues an order in December 2018 with a permanent cut of a similar magnitude, additional downgrades may be warranted.

## Key Rating Drivers

**Adverse Regulatory Environment:** The ratings reflect the sharp deterioration in the legislative and regulatory environment in South Carolina since the abandonment of the new nuclear project in July 2016. In addition to HB 4375's

legislatively mandated 14.8% rate cut, changes to definitions and statutory components of the state's utility regulation are likely to result in diminished regulatory support, in Fitch's opinion. Among such items are an expansive definition of prudence, removal of the mandate that the Office of Regulatory Staff (ORS) must consider preservation of a utility's financial integrity, and granting the ORS subpoena powers. A second bill (SB 954) passed by the Legislature orders the PSC to deviate from the statutory six-month limit on rate proceedings and prohibits an order in the multi-docketed proceeding before Nov. 1, 2018. SCE&G has filed a lawsuit in federal court alleging that HB 4375 and SB 954 constitute an unlawful taking of private property and violate due process, among other issues. The company has also requested an injunction to stay the immediate implementation of the two laws. A hearing is scheduled on the injunction request for July 30–31, 2018.

**Financial Policy and Capital Structure:** Management's financial policy, including targeted leverage and allocation of capital, will be key rating drivers. Parent SCG recently cut its dividend by 80%, preserving approximately \$275 million in cash annually. Nonetheless, if the recently ordered 14.8% rate reduction were to be made permanent there will be a significant effect on SCE&G's credit metrics. Fitch expects SCE&G to average around 5.7x, above Fitch's previously stated downgrade threshold of 5.0x.

**SCG Merger with DEI:** The merger between Dominion Energy, Inc. (DEI) and SCE&G's parent, SCG, as currently proposed, would enhance SCG's credit quality, as it would bring SCG and its two utility subsidiaries into the fold of a larger and better capitalized entity. If the merger were to be consummated as originally envisioned, Fitch expects a stabilization of SCE&G's credit metrics and would consider an upgrade. An order is expected in DEI's proposal by Dec. 21, 2018 as part of the aforementioned multi-docketed proceeding. Absent any new developments, SCG shareholders are scheduled to vote on the DEI merger on July 31, 2018.

**Parent/Subsidiary Rating Linkage:** Fitch focuses on operational ties between SCG, SCE&G and Public Service Company of North Carolina (PSNC; BBB–/Watch Evolving) in assessing the rating linkage between them, in accordance with its criteria for subsidiaries with stronger credit profiles than their parents. Fitch assesses the operational ties as strong given the shared management and centralized treasury operations. In addition, SCE&G generates the majority of SCG's earnings, while PSNC relies on equity infusions from SCG to implement its expansion program. As a result, Fitch currently rates SCE&G and PSNC one notch above SCG.

## Rating Derivation Relative to Peers

Rating Derivation Versus Peers	
Peer Comparison	SCE&G is a vertically integrated regulated utility company operating exclusively in South Carolina. SCE&G's credit profile is constrained by the heightened regulatory and legislative risk related to the abandonment of its nuclear expansion project. SCE&G has a smaller scale and balance sheet than Georgia Power Company (A/Negative), who undertook similar new nuclear construction risk. SCE&G and Dayton Power & Light Company (DP&L; BBB–/Positive) both operate regulated assets with evolving regulatory constructs.
Parent/Subsidiary Linkage	Fitch focuses on operational ties between SCANA, SCE&G and PSNC in assessing the rating linkage between them, in accordance with its criteria for subsidiaries with stronger credit profiles than their parents. Fitch assesses the operational ties as strong given the shared management and centralized treasury operations. In addition, SCE&G generates the majority of SCANA's earnings, while PSNC relies on equity infusions from SCANA to implement its expansion program. As a result, Fitch currently rates SCE&G and PSNC one notch above SCANA. The short-term IDR of South Carolina Fuel Company, Inc. (Fuel Co; F3) is equal to that of SCE&G, as SCE&G is a guarantor to the credit facility acting as a backstop to Fuel Co's CP program.
Country Ceiling	No Country Ceiling constraint was in effect for these ratings.
Operating Environment	No operating environment influence was in effect for these ratings.
Other Factors	Not applicable.
Source: Fitch Solutions.	

## Rating Sensitivities

### Future Developments That May, Individually or Collectively, Lead to Positive Rating Action

- The ratings could be upgraded if the merger into DEI and resolution of new nuclear issues result in SCE&G's adjusted debt/EBITDAR stabilizing around 3.5x–4.0x.

### Future Developments That May, Individually or Collectively, Lead to Negative Rating Action

- The merger with DEI fails to close;
- Availability under committed liquidity facilities and anticipated internally generated cash flows falling short of expected obligations due in the next 12 months–18 months;
- Unfavorable terms for the recovery of stranded costs, and/or material unrecoverable costs;
- Continued deterioration in the regulatory and legislative environment in South Carolina;
- Adjusted debt/EBITDAR consistently and materially exceeding 5.0x.

## Liquidity and Debt Structure

**Adequate Liquidity:** SCE&G (inclusive of South Carolina Fuel Co.'s facilities) had \$1.154 billion available under \$1.4 billion of consolidated committed credit agreements as of March 31, 2018 (\$1.2 billion maturing in December 2020 and \$200 million maturing in December 2018). Additionally, SCE&G held \$190 million cash and cash equivalents as of March 31, 2018. SCE&G has two first mortgage bond maturities in November 2018 totaling \$550 million. Not giving effect to potential refinancing or retirement of the November maturities, as of Dec. 31, 2017, the company has the ability to issue approximately \$1 billion in additional mortgage debt. If SCE&G is not able to refinance the bonds in the corporate market, Fitch expects the company to be able to access its credit lines.

## Debt Maturities and Liquidity at FYE17

Liquidity Summary	Original 12/31/2017	Original 3/31/2018
(USD Mil.)		
Total Cash & Cash Equivalents	395	190
Short-Term Investments	0	0
Less: Not Readily Available Cash and Cash Equivalents	0	0
<b>Fitch-defined Readily Available Cash and Cash Equivalents</b>	395	190
Availability under Committed Lines of Credit	1,148	1,154
<b>Total Liquidity</b>	1,543	1,344
<b>LTM EBITDA</b>	1,395	1,302
<b>LTM FCF</b>	-241	-381
Source: Fitch Solutions, company filings.		

Scheduled Debt Maturities <sup>a</sup>	Original
(USD Mil.)	
December 31, 2018	723
December 31, 2019	12
December 31, 2020	12
December 31, 2021	40
December 31, 2022	9
Thereafter	4,501
<b>Total Debt Maturities</b>	5,297
<sup>a</sup> As of March 31, 2018.	
Source: Fitch Solutions, company filings.	

## Key Rating Issues

## V.C. Summer 2 and 3 Abandonment

The Issue	Abandonment decision
Our View	SCE&G announced on July 31, 2017 that it would cease construction of the two new nuclear units at Summer. The ability to complete the project was imperiled by the March 29, 2017 bankruptcy filing of Westinghouse Electric Co. LLC (WEC) and that company's subsequent rejection of the fixed-price engineering, procurement and construction (EPC) contract for Summer Units 2 and 3. Ultimately, SCE&G made the decision after 45% project partner, South Carolina Public Service Authority (Santee Cooper), decided to halt its participation. SCE&G's abandonment decision has resulted in significant uncertainty regarding the recovery of \$4.9 billion of expenditures. At the time construction ceased, SCE&G was collecting revised rates based upon \$3.8 billion of expenditures under the Base Load Review Act (BLRA). The BLRA, which was passed in 2007, was expected to alleviate financial risk resulting from the large construction project by providing for a mechanism for the timely recovery of and on prudently deployed capital. While Fitch initially viewed the BLRA as supportive, it has noted that in the case of abandonment, the BLRA does not specify the rate mechanism or the time period of such recovery. An additional concern has arisen from the ambiguity as to the definition of "prudence." Owing to the uncertain recovery of part, or all, of the new nuclear expenditures, SCE&G has recognized an impairment of \$1.118 billion (\$690 million after tax). Fitch expects additional impairments are likely.
Timeline:	Near term
Rating Impact:	Negative

The Issue	Toshiba settlement and monetization
Our View	SCE&G and Santee Cooper reached an agreement on July 27, 2017 with the Toshiba Corporation, pre-bankruptcy parent of WEC, to settle claims arising out of the EPC contract for the two abandoned units. SCE&G's 55% portion of settlement agreement was \$1.192 billion, with the amount to be paid out over five years. The settlement amount has been booked as a regulatory liability, and as such, is to be used ultimately to benefit SCE&G customers. SCE&G monetized the Toshiba settlement on Sept. 27, 2017 and received \$1.016 billion for its portion. Fitch views the monetization as favorable given the mitigation of future credit risk and the boost to SCE&G's liquidity resulting from the use of proceeds to repay short-term debt. The ORS has asked the PSC to review the most prudent way for SCE&G customers realize the value of the Toshiba settlement. The request is part of the multi-docketed proceeding that is to be decided on Dec. 21, 2018.
Timeline:	Near term
Rating Impact:	Positive

The Issue	Legislative response
Our View	SCE&G's abandonment decision set the stage for a contentious legal and regulatory battle over SCE&G's recovery of \$4.9 billion in stranded costs. Fitch views the uncertainty surrounding the regulatory construct for the recovery of stranded costs in the abandoned nuclear project as the primary concern for SCE&G's credit profile. Shortly after abandonment, challenges to the constitutionality of the BLRA and accompanying rate mechanisms cast doubt on the recovery of the nuclear expansion expenditures. After numerous committee meetings, proposed legislation, and spirited floor debates, the Legislature passed HB 4375 and SB 954 on June 28, 2018. HB 4375 mandated that the PSC institute a 14.8% rate cut. Under the legislation, the rate cut is considered an "experimental rate" until the PSC issues an order in a multi-docketed proceeding by Dec. 21, 2018. If allowed to stand, Fitch considers the magnitude of the cut to be detrimental to SCE&G's credit metrics. In addition to the rate cut, HB 4375 made changes to definitions and statutory components of the state's utility regulation. Among such items are an expansive definition of prudence, removal of the mandate that the ORS must consider preservation of a utility's financial integrity, and granting the ORS subpoena powers. A second bill (SB 954) passed by the Legislature orders the PSC to deviate from the statutory six-month limit on rate proceedings and prohibits an order in the multi-docketed proceeding before Nov. 1, 2018. If allowed to stand, the new legislation is likely to result in diminished regulatory support, in Fitch's opinion. SCE&G has filed a lawsuit in federal court alleging that HB 4375 and SB 954 constitute an unlawful taking of private property and violate due process, among other issues. The company has also requested an injunction to stay the immediate implementation of the two laws. It is not known how quickly the court will rule on the issue.
Timeline:	Near term
Rating Impact:	Negative

The Issue	Regulatory proceedings
Our View	<p>Two environmental groups filed a complaint with the PSC in June 2017 requesting a formal proceeding to investigate the expenditures and rate recovery related to the new Summer units. In response to SCE&amp;G's July 31, 2017 decision to abandon the new nuclear units, the ORS filed a petition with PSC on Sept. 26, 2017 requesting immediate suspension of all revenue collections linked to the nuclear expansion program until the legality of the BLRA is adjudicated by the South Carolina Supreme Court, and to refund all revenues collected to date if the law is ruled unconstitutional. The ORS subsequently amended its petition to request a determination of the most prudent allocation of the Toshiba guarantee proceeds. The environmental groups' and the ORS complaints are part of a multi-docketed proceeding that includes SCG's proposed combination with DEI. Under SB 954, the Legislature ordered the PSC to deviate from the statutory six-month limit on rate proceedings and prohibits the PSC to hold hearings on the merits in the multi-docketed proceeding before Nov. 1, 2018 and specifies that an order must be issued no later than Dec. 21, 2018. Fitch is concerned that the expected December order could include a rate cut of the same magnitude as the temporary rate specified in HB 4375. Additionally, Fitch is concerned that the deviation from the six-month statutory timeframe establishes a precedent that could expose the state's utilities to regulatory lag in the future.</p> <p>Consistent with HB 4375, the PSC issued orders on July 2 and July 3, 2018 implementing the 14.8% rate cut effective April 1, 2018. The rate reduction will be implemented beginning with the first billing cycle in August 2018 and will consist of a decrement rider for the 14.8% rate reduction on a forward basis and a one-time rate credit for the months of April, May, June and July. The PSC published its procedural schedule in the multi-docketed proceeding on July 5, 2018. The ORS and environmental groups are directed to file testimony in the rate relief docket by August 14 and SCE&amp;G's testimony is due Sept. 18, 2018.</p>
Timeline:	Near term
Rating Impact:	Negative

#### Merger with DEI

The Issue	Proposed merger with better capitalized company
Our View	<p>The merger between DEI and SCE&amp;G's parent, SCG, as currently proposed, would enhance SCG's credit quality, as it would bring SCG and its two utility subsidiaries into the fold of a larger and better capitalized entity. If the merger were to be consummated as originally envisioned, Fitch expects a stabilization of SCE&amp;G's credit metrics and would consider an upgrade. An order is expected in DEI's proposal by Dec. 21, 2018 as part of the aforementioned multi-docketed proceeding. SCE&amp;G and DEI are directed to file testimony in the merger docket by Aug. 2, 2018 and the ORS by Sept. 18, 2018. Absent any new developments, SCG shareholders are scheduled to vote on the DEI merger on July 31, 2018.</p>
Timeline:	Near term
Rating Impact:	Positive

## Key Assumptions

## Fitch's key assumptions within our rating case for the issuer include:

- 14.8% rate reduction through the forecast period attributable to costs currently being collected for Summer Units 2 and 3;
- Additional new nuclear development impairment of \$1.67 billion;
- Columbia Energy Center recovered through rates in 2021;
- Reduction of SCG \$2.45 annual dividend by 80% (to \$70 million from \$344 million).

## Financial Data

(USDm)	Historical			
	Dec 2014	Dec 2015	Dec 2016	Dec 2017
<b>SUMMARY INCOME STATEMENT</b>				
Gross Revenue	3,091	2,930	2,986	3,070
Revenue Growth (%)	8.6	-5.2	1.9	2.8
Operating EBITDA (Before Income From Associates)	1,193	1,274	1,380	1,395
Operating EBITDA Margin (%)	38.6	43.5	46.2	45.4
Operating EBITDAR	1,205	1,286	1,392	1,406
Operating EBITDAR Margin (%)	39.0	43.9	46.6	45.8
Operating EBIT	830	934	1,013	1,028
Operating EBIT Margin (%)	26.9	31.9	33.9	33.5
Gross Interest Expense	-242	-248	-270	-303
Pretax Income (Including Associate Income/Loss)	676	711	774	-343
<b>SUMMARY BALANCE SHEET</b>				
Readily Available Cash and Equivalents	100	130	164	395
Total Debt With Equity Credit	5,018	5,189	6,005	5,449
Total Adjusted Debt with Equity Credit	5,038	5,285	6,101	5,540
Net Debt	4,918	5,059	5,841	5,054
<b>SUMMARY CASH FLOW STATEMENT</b>				
Operating EBITDA	1,193	1,274	1,380	1,395
Cash Interest Paid	-210	-228	-251	-303

Cash Tax	-177	-5	-100	98
Dividends Received Less Dividends Paid to Minorities (Inflow/(Out)flow)	0	0	0	0
Other Items Before FFO	54	-208	25	-115
Funds Flow From Operations	860	833	1,054	1,075
Change in Working Capital	-219	245	-132	-69
Cash Flow From Operations (Fitch Defined)	641	1,078	922	1,006
Total Non- Operating/Nonrecurring Cash Flow	0	0	0	0
Capex	-934	-1,008	-1,399	-928
Capital Intensity (Capex/Revenue)	30.2	34.4	46.9	30.2
Common Dividends	-260	-289	-301	-319
FCF	-553	-219	-778	-241
Net Acquisitions and Divestitures	275	975	0	1,096
Other Investing and Financing Cash Flow Items	-556	-1,071	-50	-71
Net Debt Proceeds	760	141	762	-556
Net Equity Proceeds	82	204	100	3
Total Change in Cash	8	30	34	231
<b>ADDITIONAL CASH FLOW MEASURES</b>				
FFO Margin (%)	27.8	28.4	35.3	35.0
<b>Calculations for Forecast Publication</b>				
Capex, Dividends, Acquisitions and Other Items Before FCF	-919	-322	-1,700	-151
FCF After Acquisitions and Divestitures	-278	756	-778	855
FCF Margin (After Net Acquisitions) (%)	-9.0	25.8	-26.1	27.9
<b>COVERAGE RATIOS</b>				
FFO Interest Coverage (x)	5.1	4.7	5.2	4.5
FFO Fixed-Charge Coverage (x)	4.9	4.5	5.0	4.4



Operating EBITDAR/Interest Paid + Rents (x)	5.4	5.4	5.3	4.5
Operating EBITDA/Interest Paid (x)	5.7	5.6	5.5	4.6
<b>LEVERAGE RATIOS</b>				
Total Adjusted Debt/Operating EBITDAR (x)	4.2	4.1	4.4	3.9
Total Adjusted Net Debt/Operating EBITDAR (x)	4.1	4.0	4.3	3.7
Total Debt with Equity Credit/Operating EBITDA (x)	4.2	4.1	4.4	3.9
FFO-Adjusted Leverage (x)	4.7	4.9	4.6	4.0
FFO-Adjusted Net Leverage (x)	4.6	4.8	4.5	3.7

## Rating Navigator

## South Carolina Electric &amp; Gas Co.

Corporates Ratings Navigator  
US Utilities

Factor Levels	Sector Risk Profile	Operating Environment	Management and Corporate Governance	Business Profile				Financial Profile			Issuer Default Rating
				Regulation	Market and Franchise	Asset Base and Operations	Commodity Exposure	Profitability	Financial Structure	Financial Flexibility	
aaa											AAA
aa+											AA+
aa											AA
aa-											AA-
a+											A+
a											A
a-											A-
bbb+											BBB+
bbb											BBB
bbb-											BBB- RWE
bb+											BB+
bb											BB
bb-											BB-
b+											B+
b											B
b-											B-
ccc+											CCC+
ccc											CCC
ccc-											CCC-
cc											CC
c											C
d or rd											D or RD

## Operating Environment

aa+	Economic Environment	aa	Very strong combination of countries where economic value is created and where assets are located.
aa	Financial Access	aa	Very strong combination of issuer specific funding characteristics and of the strength of the relevant local financial market.
	Systemic Governance	aa	Systemic governance (eg rule of law, corruption, government effectiveness) of the issuer's country of incorporation consistent with 'aa'.
b-			
ccc+			

## Regulation

bbb+	Degree of Transparency and Predictability	bb	Poor or uncertain track record of regulation and high political interference.
bbb	Timeliness of Cost Recovery	bb	Significant lag to recover capital and operating costs.
bbb-	Trend in Authorized ROEs	bbb	Average authorized ROE.
bb+	Mechanisms Available to Stabilize Cash Flows	bbb	Revenues partially insulated from variability in consumption.
bb	Mechanisms Supportive of Creditworthiness	bbb	Effective regulatory ring-fencing or minimum creditworthiness requirements.

## Asset Base and Operations

a-	Diversity of Assets	bbb	Good quality and/or reasonable scale diversified assets.
bbb+	Operations Reliability and Cost Competitiveness	bbb	Reliability and cost of operations at par with industry averages.
bbb	Exposure to Environmental Regulations	bbb	Limited or manageable exposure to environmental regulations.
bbb-	Capital and Technological Intensity of Capex	bb	Reinvestment concentrated in capital-intensive or unproven technologies.
bb+			

## Profitability

bbb+	Free Cash Flow	bbb	Structurally neutral to negative FCF across the investment cycle.
bbb	Volatility of Profitability	bb	Lower stability and predictability of profits relative to utility peers.
bbb-			
bb+			
bb			

## Financial Flexibility

a-	Financial Discipline	a	Clear commitment to maintain a conservative policy with only modest deviations allowed.
bbb+	Liquidity	bbb	One-year liquidity ratio above 1.25x. Well-spread maturity schedule of debt but funding may be less diversified.
bbb	FFO Fixed Charge Cover	bbb	4.5x
bbb-			
bb+			

## Management and Corporate Governance

a-	Management Strategy	bbb	Strategy may include opportunistic elements but soundly implemented.
bbb+	Governance Structure	bbb	Good CG track record but effectiveness/independence of board less obvious. No evidence of abuse of power even with ownership concentration.
bbb	Group Structure	aa	Transparent group structure.
bbb-	Financial Transparency	a	High quality and timely financial reporting.
bb+			

## Market and Franchise

a+	Market Structure	a	Well-established market structure with complete transparency in price-setting mechanisms.
a	Consumption Growth Trend	a	Economically vibrant market or service territory with strong sales growth.
a-	Customer Mix		Favorable customer mix.
bbb+	Geographic Location	bbb	Beneficial location or reasonable locational diversity.
bbb	Supply Demand Dynamics	bbb	Moderately favorable outlook for prices/rates.

## Commodity Exposure

a	Ability to Pass Through Changes in Fuel	a	Complete pass-through of commodity costs.
a-	Underlying Supply Mix	bbb	Low variable costs and moderate flexibility of supply.
bbb+	Hedging Strategy	a	Highly captive supply and customer base.
bbb			
bbb-			

## Financial Structure

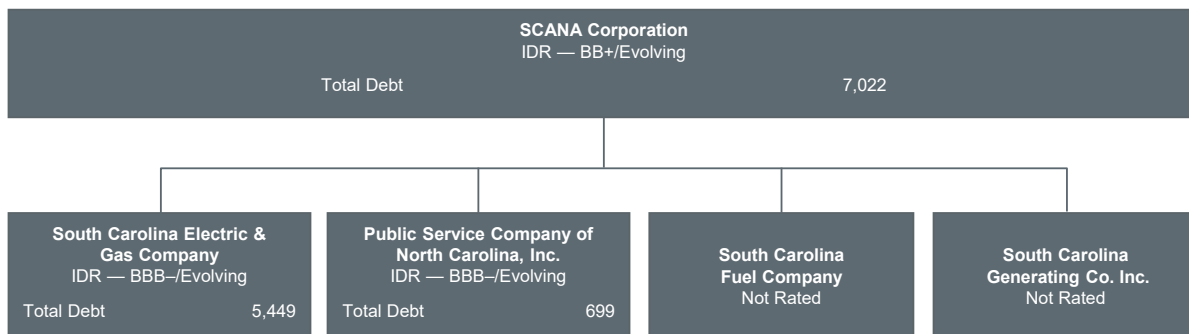
bbb+	Lease Adjusted FFO Gross Leverage	bbb	5.0x
bbb	Total Adjusted Debt/Operating	bb	4.75x
bbb-			
bb+			
bb			

**How to Read This Page:** The left column shows the three-notch band assessment for the overall Factor, illustrated by a bar. The right column breaks down the Factor into Sub-Factors, with a description appropriate for each Sub-Factor and its corresponding category.

Navigator Version: RN 1.44.3.0

## Simplified Group Structure Diagram

### Organizational and Debt Structure — South Carolina Electric & Gas Company (\$ Mil., As of Dec. 31, 2017)



Source: Company filings, Fitch.

## Peer Financial Summary

Company	Date	Rating	Gross Revenue	FFO Fixed Charge Coverage (x)	FFO Adjusted Leverage (x)	Funds Flow From Operations	Total Adjusted Debt/Operating EBITDAR (x)
South Carolina Electric & Gas Co.	2017	BBB-	3,070	4.4	4.0	1,075	3.9
	2016	BBB	2,986	5.0	4.6	1,054	4.4
	2015	BBB	2,930	4.5	4.9	833	4.1
Dayton Power & Light Company	2017	BBB-	720	7.5	2.9	198	3.2
	2016	BB+	1,366	10.1	2.9	237	2.5
	2015	BB+	1,552	8.3	3.1	233	2.6
Indianapolis Power & Light Co.	2017	BBB-	1,350	4.4	4.9	299	4.2
	2016	BBB-	1,347	5.1	4.2	344	3.7
	2015	BBB-	1,250	6.5	4.3	307	3.9
Appalachian Power Co.	2017	BBB	2,902	5.0	3.8	848	3.7
	2016	BBB	2,970	5.3	3.7	853	3.5
	2015	BBB-	2,930	4.8	3.9	799	3.6
Source: Fitch Solutions.							

## Reconciliation of Key Financial Metrics

(USD Millions, As reported)	31 Dec 2017
<b>Income Statement Summary</b>	
Operating EBITDA	1,395
+ Recurring Dividends Paid to Non-controlling Interest	0
+ Recurring Dividends Received from Associates	0
+ Additional Analyst Adjustment for Recurring I/S Minorities and Associates	0
<b>= Operating EBITDA After Associates and Minorities (k)</b>	<b>1,395</b>
+ Operating Lease Expense Treated as Capitalised (h)	11
<b>= Operating EBITDAR after Associates and Minorities (j)</b>	<b>1,406</b>
<b>Debt &amp; Cash Summary</b>	
<b>Total Debt with Equity Credit (l)</b>	<b>5,449</b>
+ Lease-Equivalent Debt	91
+ Other Off-Balance-Sheet Debt	0
<b>= Total Adjusted Debt with Equity Credit (a)</b>	<b>5,540</b>
Readily Available Cash [Fitch-Defined]	395
+ Readily Available Marketable Securities [Fitch-Defined]	0
<b>= Readily Available Cash &amp; Equivalents (o)</b>	<b>395</b>
<b>Total Adjusted Net Debt (b)</b>	<b>5,145</b>
<b>Cash-Flow Summary</b>	
<b>Preferred Dividends (Paid) (f)</b>	<b>0</b>
Interest Received	0
<b>+ Interest (Paid) (d)</b>	<b>(303)</b>
<b>= Net Finance Charge (e)</b>	<b>(303)</b>
<b>Funds From Operations [FFO] (c)</b>	<b>1,075</b>
+ Change in Working Capital [Fitch-Defined]	(69)
<b>= Cash Flow from Operations [CFO] (n)</b>	<b>1,006</b>
<b>Capital Expenditures (m)</b>	<b>(928)</b>
<b>Multiple applied to Capitalised Leases</b>	<b>8.0</b>
<b>Gross Leverage</b>	
<b>Total Adjusted Debt / Op. EBITDAR* [x] (a/j)</b>	<b>3.9</b>
<b>FFO Adjusted Gross Leverage [x] (a/(c-e+h-f))</b>	<b>4.0</b>
<i>Total Adjusted Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)</i>	
<b>Total Debt With Equity Credit / Op. EBITDA* [x] (l/k)</b>	<b>3.9</b>
<b>Net Leverage</b>	
<b>Total Adjusted Net Debt / Op. EBITDAR* [x] (b/j)</b>	<b>3.7</b>
<b>FFO Adjusted Net Leverage [x] (b/(c-e+h-f))</b>	<b>3.7</b>
<i>Total Adjusted Net Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)</i>	
<b>Total Net Debt / (CFO - Capex) [x] ((l-o)/(n+m))</b>	<b>64.8</b>
<b>Coverage</b>	
<b>Op. EBITDAR / (Interest Paid + Lease Expense)* [x] (j/(-d+h))</b>	<b>4.5</b>
<b>Op. EBITDA / Interest Paid* [x] (k/(-d))</b>	<b>4.6</b>
<b>FFO Fixed Charge Cover [x] ((c-e+h-f)/(-d+h-f))</b>	<b>4.4</b>
<i>(FFO - Net Finance Charge + Capit. Leases - Pref. Div Paid) / (Gross Int. Paid + Capit. Leases - Pref. Div. Paid)</i>	
<b>FFO Gross Interest Coverage [x] ((c-e-f)/(-d-f))</b>	<b>4.5</b>
<i>(FFO - Net Finance Charge - Pref. Div Paid) / (Gross Int. Paid - Pref. Div. Paid)</i>	
* EBITDAR after Dividends to Associates and Minorities	
Source: Fitch, based on information from company reports.	

## Fitch Adjustment Reconciliation

	Reported Values 31 Dec 17	Sum of Fitch Adjustments	Fair Value and Other Debt Adjustments	Other Adjustment	Adjusted Values
<b>Income Statement Summary</b>					
Revenue	3,070	0			3,070
Operating EBITDAR	1,362	44		44	1,406
Operating EBITDAR after Associates and Minorities	1,362	44		44	1,406
Operating Lease Expense	11	0			11
Operating EBITDA	1,351	44		44	1,395
Operating EBITDA after Associates and Minorities	1,351	44		44	1,395
Operating EBIT	1,028	0			1,028
<b>Debt &amp; Cash Summary</b>					
Total Debt With Equity Credit	5,416	33	33		5,449
Total Adjusted Debt With Equity Credit	5,507	33	33		5,540
Lease-Equivalent Debt	91	0			91
Other Off-Balance Sheet Debt	0	0			0
Readily Available Cash & Equivalents	395	0			395
Not Readily Available Cash & Equivalents	0	0			0
<b>Cash-Flow Summary</b>					
Preferred Dividends (Paid)	0	0			0
Interest Received	0	0			0
Interest (Paid)	(288)	(15)		(15)	(303)
Funds From Operations [FFO]	1,075	0			1,075
Change in Working Capital [Fitch-Defined]	(69)	0			(69)
Cash Flow from Operations [CFO]	1,006	0			1,006
Non-Operating/Non-Recurring Cash Flow	0	0			0
Capital (Expenditures)	(928)	0			(928)
Common Dividends (Paid)	(319)	0			(319)
Free Cash Flow [FCF]	(241)	0			(241)
<b>Gross Leverage</b>					
Total Adjusted Debt / Op. EBITDAR* [x]	4.0				3.9
FFO Adjusted Leverage [x]	4.0				4.0
Total Debt With Equity Credit / Op. EBITDA* [x]	4.0				3.9
<b>Net Leverage</b>					
Total Adjusted Net Debt / Op. EBITDAR* [x]	3.8				3.7
FFO Adjusted Net Leverage [x]	3.7				3.7
Total Net Debt / (CFO - Capex) [x]	64.4				64.8
<b>Coverage</b>					
Op. EBITDAR / (Interest Paid + Lease Expense)* [x]	4.6				4.5
Op. EBITDA / Interest Paid* [x]	4.7				4.6
FFO Fixed Charge Coverage [x]	4.6				4.4
FFO Interest Coverage [x]	4.7				4.5
*EBITDA/R after Dividends to Associates and Minorities					
Source: Fitch					

## Full List of Ratings

South Carolina Electric & Gas Co.	Rating Outlook	Last Rating Action
Long-Term IDR	BBB- Rating Watch Evolving	Rating Watch Maintained 03 July 2018
Short-Term IDR	F3	Rating Watch Maintained 03 July 2018
Senior Secured	BBB+	Rating Watch Maintained 03 July 2018
Senior Unsecured	BBB	Rating Watch Maintained 03 July 2018
CP	F3	Rating Watch Maintained 03 July 2018

## Related Research & Criteria

<a href="#">Fitch Maintains Rating Watch Evolving on SCANA and Subsidiaries (July 2018)</a>
<a href="#">Corporate Rating Criteria (March 2018)</a>
<a href="#">Parent and Subsidiary Rating Linkage (February 2018)</a>
<a href="#">Fitch Revises Rating Watch on SCANA and Subsidiaries to Evolving (January 2018)</a>
<a href="#">Fitch Downgrades SCANA to 'BB+' / SCE&amp;G to 'BBB-'; Negative Watch Maintained (September 2017)</a>

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REVISING O'DONNELL TABLE 1 AND EXHIBIT KWO-1)

	O'Donnell Bond Issues	KWO-1, Col. 4	O'Donnell Cumulative Issues	KWO-1, Col.5	O'Donnell Error	Corrected Cumulative Issues	Recalculate	O'Donnell Interest Costs	KWO-1, Col.6	Corrected Int. Cost	Recalculate	SCE&G Debt Maturities	Cumulative Total Issues with Refi	Incremental Interest cost		
														Baa3/BBB- /BB+ (1)	Range, Ba / BB/BB Category (1)	
														0.55%	0.75%	0.95%
2018	198,675,782		198,675,782			198,675,782		331,126		331,193		700,000,000	898,675,782	4,942,717	4,942,717	4,942,717 (2)
2019	111,120,987		111,120,987			309,796,769		516,328		516,431			1,009,796,769	5,553,882	7,573,476	9,593,069
2020	113,621,209		113,621,209			423,417,978		705,697		705,838			1,123,417,978	6,178,799	8,425,635	10,672,471
2021	116,177,686		116,177,686			539,595,664		899,326		899,506		331,000,000	1,570,595,664	8,638,276	11,779,467	14,920,659
2022	261,193,114		658,387,349		(142,401,429)	800,788,778		1,097,312		1,334,915			1,831,788,778	10,074,838	13,738,416	17,401,993
2023	263,865,927		779,851,847		(142,401,429)	1,064,654,705		1,299,753		1,774,779			2,095,654,705	11,526,101	15,717,410	19,908,720
2024	124,197,449		904,049,296			1,188,852,154		1,506,749		1,981,817			2,219,852,154	12,209,187	16,648,891	21,088,595
2025	126,991,891		1,031,041,187			1,315,844,045		1,718,402		2,193,512			2,346,844,045	12,907,642	17,601,330	22,295,018
2026	129,849,209		1,160,890,396			1,445,693,254		1,934,817		2,409,971			2,476,693,254	13,621,813	18,575,199	23,528,586
2027	132,770,816		1,293,661,212			1,578,464,070		2,156,102		2,631,300			2,609,464,070	14,352,052	19,570,981	24,789,909
2028	135,758,159		1,429,419,371			1,714,222,229		2,382,366		2,857,608		400,000,000	3,145,222,229	17,298,722	23,589,167	29,879,611
2029	138,812,718		1,568,232,089			1,853,034,947		2,613,720		3,089,009			3,284,034,947	18,062,192	24,630,262	31,198,332
2030	141,936,004		1,710,168,093			1,994,970,951		2,850,280		3,325,617			3,425,970,951	18,842,840	25,694,782	32,546,724
2031	205,053,921		1,855,297,657		(59,924,357)	2,200,024,872		3,092,163		3,667,441			3,631,024,872	19,970,637	27,232,687	34,494,736
2032	148,394,979		2,003,692,636			2,348,419,851		3,339,488		3,914,816		300,000,000	4,079,419,851	22,436,809	30,595,649	38,754,489
2033	151,733,866		2,155,426,502			2,500,153,717		3,592,378		4,167,756		500,000,000	4,731,153,717	26,021,345	35,483,653	44,945,960
2034	155,147,878		2,310,574,380			2,655,301,595		3,850,957		4,426,388			4,886,301,595	26,874,659	36,647,262	46,419,865
2035	158,638,705		2,469,213,085			2,813,940,300		4,115,355		4,690,838		100,000,000	5,144,940,300	28,297,172	38,587,052	48,876,933
2036	162,208,076		2,631,421,161			2,976,148,376		4,385,702		4,961,239		125,000,000	5,432,148,376	29,876,816	40,741,113	51,605,410
2037	165,857,758		2,797,278,919			3,142,006,134		4,662,132		5,237,724			5,598,006,134	30,789,034	41,985,046	53,181,058
2038	169,589,558		2,966,868,477			3,311,595,692		4,944,781		5,520,430		535,000,000	6,302,595,692	34,664,276	47,269,468	59,874,659
2039	173,405,323		3,140,273,800			3,485,001,015		5,233,790		5,809,497		150,000,000	6,626,001,015	36,443,006	49,695,008	62,947,010
2040	177,306,942		3,317,580,742			3,662,307,957		5,529,301		6,105,067			6,803,307,957	37,418,194	51,024,810	64,631,426
2041	181,296,349		3,498,877,091			3,843,604,306		5,831,462		6,407,288		350,000,000	7,334,604,306	40,340,324	55,009,532	69,678,741
2042	185,375,516		3,684,252,607			4,028,979,822		6,140,421		6,716,309		500,000,000	8,019,979,822	44,109,889	60,149,849	76,189,808
2043	189,546,466		3,873,799,073			4,218,526,288		6,456,332		7,032,283		400,000,000	8,609,526,288	47,352,395	64,571,447	81,790,500
2044	193,811,261		4,067,610,334			4,412,337,549		6,779,351		7,355,367			9,228,337,549	50,755,857	69,212,532	87,669,207
2045	198,172,014		4,265,782,348			4,610,509,563		7,109,637		7,685,719			9,426,509,563	51,845,803	70,698,822	89,551,841
2046	202,630,885		4,468,413,233			4,813,140,448		7,447,355		8,023,505		425,000,000	10,054,140,448	55,297,772	75,406,053	95,514,334
2047	207,190,080		4,675,603,313			5,020,330,528		7,792,672		8,368,891			10,261,330,528	56,437,318	76,959,979	97,482,640
Total	5,020,330,528		4,675,603,313		(344,727,215)	5,020,330,528		110,315,255		124,142,056		4,816,000,000	10,261,330,528	793,140,366	1,079,757,693	1,366,375,021

Notes

(1) Ratings by Moody's/S&amp;P/ Fitch

(2) Refunding carried out in August 2018 at incremental credit spread of over 50 basis points